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France

Oilseeds and Products

New Incentives for Biofuel Production

2004

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Report Highlights:
Under an initiative of the French President, 4 new biofuel processing plants of 200,000 MT production capacity each will be built by 2007. This increase in production would allow the French to meet the minimum incorporation rates of biofuels for car fuels suggested in Directive 2003/30/EC. The French oilseed industry expects that French biodiesel production capacity will increase from 467,500 MT in 2004 to 900,000 MT in 2007. Given that biodiesel is made from rapeseed oil, industrial rapeseed plantings are likely to more than double by 2007, and domestic rapeseed meal production is expected to boom. France's demand for soybean meal is therefore expected to decline significantly, as 1 MT of soybean meal can be substituted with 1.5 MT of rapeseed meal in dairy cows feed rations.

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Table of Contents

I- Chronology of French Policy Actions in Biofuels in 2004 3
September 2004: French Prime Minister announces four New Biofuel plants 3
August 2004: the Biofuel Development Plan Initiated by the French President 3
July 2004: Ministry of Ecology's Climate Orientation Plan Includes Biofuel Development ... 3
May 2004: French Parliament Report to Reform the Biofuel Fiscal Regime 3
May 2004: Economic and Social Council's Report Calls for a Strategy Plan in Biofuel Development 4
II-French biodiesel production 4
1. Projected Increase by 2007..... 4
2004 Situation 4
2007 Prospects 4
2. Impact of Growing Biodiesel Production on Rapeseed Acreage..... 5
French Government Plan 5
EU Commission Plan..... 5
3. Impact on Rapeseed Meal and Soybean Meal Consumption 5

I- Chronology of French Policy Actions in Biofuels in 2004

September 2004: French Prime Minister announces four New Biofuel plants

On September 7, the French Prime Minister visited a biodiesel plant in France, met with representatives of the biodiesel and bioethanol industries and committed to tripling domestic biofuel production by 2007. Four new plants producing 200,000 MT of biofuel each will need to be built to reach this objective. If France can meet these targets, France would reduce its carbon dioxide emission by 3 Million MT per year and create 6,000 new jobs in agriculture.

August 2004: the Biofuel Development Plan Initiated by the French President

At the French Minister Council of August 19, 2004, the President of France announced a new initiative to accelerate the development and production of biofuels in France, to be launched on January 1, 2005.

With this program, France intends to meet EU recommendations in Directive 2003/30/CE that sets the level at 5.75% for the share of biofuels and other renewable fuels in gasoline and diesel sold in Member States for transportation by 2010 (see FR3044 dated 8/29/2004). The 2004 biofuels development plan aims to make France respect its commitments of the Kyoto Protocol.

July 2004: Ministry of Ecology's Climate Orientation Plan Includes Biofuel Development

The Climate Orientation Plan presented by the French Ministry of Ecology on July 22 proposes 5 key-initiatives to stabilize greenhouse gases emissions at 1990 levels by 2010 (end of the first Kyoto commitment period) in order to fight climate warming. One of these actions is to increase the use of biofuels to meet Directive 2003/30/EC targets. The other actions proposed are an "incentive-disincentive" system for all new cars based on their fuel consumption and CO2 emission, the promotion of low-energy domestic appliances, more power consumption information on consumer appliances, and recommendations on the use of air-conditioning systems. The Climate Orientation Plan will be presented for vote to the French Parliament in early 2005.

May 2004: French Parliament Report to Reform the Biofuel Fiscal Regime

On May 26, 2004, the Finance and General Economy Committee of the French National Assembly released a report on biofuels. It concluded that the current French fiscal system benefiting biofuels has to change when domestic production increases to meet Directive 2003/30/CE objectives, as it would be too expensive. The report recommends setting a compulsory incorporation rate, which would impact final consumer prices.

Under the current tax cut system, Vegetable Oil Methyl Ester (VOME, or biodiesel) and bioethanol benefit from tax rebates to make these products price-competitive with diesel and gasoline. Current tax cuts represent 175 million euros (123 million euros for VOME and 57 million euros for bioethanol). The total amount of French tax cuts would increase to 450 million euros in 2005 and would jump to 1.2 billion euros in 2010 to meet the EU objectives of incorporation. (see report FR3044, dated 8/29/2003)

May 2004: Economic and Social Council's Report Calls for a Strategy Plan in Biofuel Development

The French Economic and Social Council (ESC) is a group that includes members from French civil society and works on social, economic, scientific and cultural issues, as a consultative committee to the French government.

In May 2004, the ESC released a report on the challenges of the non-food production of the farm industry. This report calls for a strategic plan to develop bio-industries in France, including biofuels and other non-food production. The ESC also suggests compulsory incorporation of bioethanol and biodiesel in fuels at the rate of 2% into gasoline and diesel, respectively, as early as December 31, 2005.

II-French biodiesel production

1. Projected Increase by 2007

2004 Situation

The French government currently provides official authorization to produce 467,500 MT of biodiesel to six processing plants. This quantity includes 317,500 MT initially authorized (see Paris report FR3044, dated 8/29/2003) plus 80,000 additional MT authorized since May 7, 2004.

According to the French oilseeds industry, the domestic production of 467,500 MT of biodiesel represents 1.6% of the total domestic consumption of diesel. This percentage is lower than the 2% recommended by the EU Commission in the 2003/30/EC Directive adopted in May 2003. (see Paris report FR3044, dated 8/29/2003).

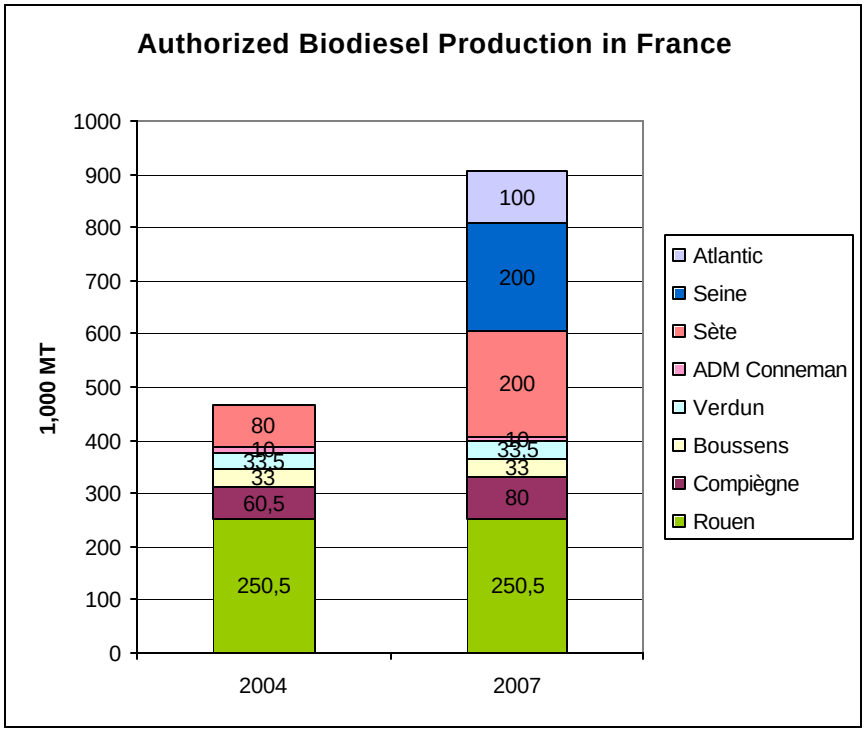
Biodiesel Plants Production (in 1,000 MT)	2004	2007
Rouen	250,5	250,5
Compiègne	60,5	80
Boussens	33	33
Verdun	33,5	33,5
ADM Conneman	10	10
Sète	80	200
Seine		200
Atlantic		100
Total	467,5	907

In 2004, six biodiesel plants obtained government authorization to produce biodiesel that would benefit from tax cut on the French market. The largest one is located in Rouen (Normandy) and is the largest European biodiesel plant. ADM Conneman is located in Germany. The plant located in Verdun is close to the Franco-German frontier and produces biodiesel for the French market up to the authorized quota of 33,500 MT and above for the German market. The biodiesel plant located in Sète (on the Mediterranean coast) is currently under construction.

2007 Prospects

The additional 800,000 MT of biofuel production planned for 2007 is expected to be 400,000 MT biodiesel and 400,000 MT bioethanol. The French oilseeds industry plans to produce the additional 400,000 MT with two new biodiesel plants and by expanding production at current plants.

By 2007, plants located in Compiègne (North of Paris) and Sète will have their production expanded, and two new plants are planned: one along the Seine river and another one on the Atlantic coast.



2. Impact of Growing Biodiesel Production on Rapeseed Acreage

French Government Plan

By 2007, France is expected to produce 867,000 MT to 900,000 MT (used in the above paragraph) of biodiesel. One hectare of rapeseed produces 1.2 to 1.4 MT of biodiesel, depending on the yield.

Consequently, 620,000 to 750,000 hectares would be required to be planted to rapeseed to produce the 2007 projected biodiesel production. In 2004, there was 300,000 hectares of rapeseed planted to produce biodiesel. The area planted to industrial rapeseed would therefore have to more than double in the next three years.

EU Commission Plan

The European Commission calls for biofuels to represent 2% of fuels used in Member States by 2005, and 5.75% by 2010. The table below shows what these percentages mean in required biodiesel production, and the rapeseed area necessary for production.

	2005	2010
Biofuels into Fuels	2%	5.75%
Biodiesel Production (MT)	600,000	1,700,000
Rapeseed Area (ha)	430,000 to 500,000	1,200,000 to 1,400,000

The French technical institute for oilseeds (CETIOM) estimates that the French maximum acreage for rapeseed is 1.5 to 1.8 million ha, with rapeseed acreage limited at 15 to 20% of farmland, due to agronomical constraints.

According to CETIOM and the French Research Institute in Agronomy (INRA), such a significant increase in rapeseed production to produce biodiesel is economically viable under the following conditions:

- annual set-aside rate is not lower than 10% in the next few years,
- fiscal regime of biofuels remains attractive,
- oil prices remain high (so that producer prices for industrial rapeseed are high),
- rapeseed meal prices remain high despite significantly increased supplies,
- EU payments for industrial crops are maintained.

3. Impact on Rapeseed Meal and Soybean Meal Consumption

According to CETIOM, rapeseed meal produced from rapeseed producing biodiesel would increase from 510,000 MT (out of total 940,000 MT of meals used in animal feed) in 2004 to 750,000 MT (out of 1.18 million MT) in 2007. According to the Center for Survey and Research on Animal Production Economy and Organization (CEREOPA), the maximum quantity of rapeseed meal to be incorporated into animal feed is 1.3 million MT in France.

For ruminants (principally dairy cows), 1 MT of soybean meal can be easily substituted with 1.5 MT of rapeseed meal with no technical problem of incorporation in feed rations. However, swine and poultry incorporate rapeseed meal with technical difficulties. CEREOPA estimates that rapeseed meal prices would have to decline by 20 to 44% to be competitive with soybean meal.

This significant increase in rapeseed meal consumption is likely to reduce French demand for soybean meal. France's demand for soybean meal in animal feed is high: French imports of soybean meal totals 4 millions MT every year, while and French production of soybean meal, principally from imported soybeans, amounts to 500,000 MT.